

Results of non-financial corporations in 2000 Q1 (1)

1. INTRODUCTION

The Central Balance Sheet Office Quarterly Survey data for 2000 Q1 show that reporting corporations have maintained the positive performance initiated in the second half of 1999. Their gross value added (GVA) increased at a nominal rate of 5.7 % in the first three months with respect to 1999 Q1. This was largely due to the favourable developments in exports and domestic demand observed throughout the previous year and confirmed by other sources. Manufacturing industry was notably buoyant, favoured by the recovery in exports and the increase in capital investment, since the negative impact of the rise in oil prices on inputs has not fully affected the performance of the corporations' GVA. In fact, there is evidence that oil price increases have affected the GVA and the operating margins of oil-refining corporations (classified as manufacturing firms) and of oil-retailing corporations (classified in the distributive trade sector) differently. The GVA of oil-refining corporations has trended favourably, while that of fuel-retailing corporations reveals a negative performance, suggesting that higher input prices are not being passed through in full in the latter.

Growth in productive activity has led to substantial job creation, despite staff adjustments in major corporations in sectors undergoing liberalisation in recent quarters. Specifically, the net rate of change of employment in reporting corporations is clearly positive, moving away from a pattern hitherto dominated by the overrepresentation of restructuring corporations. The data available show that in 2000 Q1 most corporations in the sample increased their workforce, especially in the distributive trade, corporate services and construction. Average compensation rose at a rate of 3.7 %, compared with the same period the previous year, furthering the trend observed in the second half of 1999. This marks something of a break in the wage moderation recorded up to 1999 Q3. The increase has affected most sectors, regardless of their relative position. As a result of employment growth and average compensation, personnel costs grew at a rate of over 5 % which, as it was below the performance of GVA, allowed the gross operating result to increase at a rate of over 6 %. Financial costs showed a positive rate of change of 17 %, in

(1) The information in this article relates to 723 corporations that have reported their quarterly data to the Central Balance Sheet Office (the CBQ survey) to 15 June 2000. These firms account for 15.3 % of total activity –as measured by gross value added (GVA) at factor cost– in the non-financial corporations sector.

TABLE 1

Profit and loss account. Year-on-year performance
(Growth rates of the same corporations on the same period a year earlier/
% of GVA at factor cost in the case of the net result)

Data Bases	CBA		CBQ		
	1997	1998	99Q1-Q4 98 Q1-Q4 (a)	99Q1/ 98 Q1	00 Q1/99 Q1
Number of corporations / Total national coverage	8046 / 38,9 %	6806 / 37,1 %	854 / 17,4 %	912 / 19,8 %	723 / 15,3 %
1. VALUE OF OUTPUT (including subsidies)	10.1	6.5	8.8	2.8	24.0
Of which:					
1. Net amount of turnover and other operating income	10.0	7.1	9.9	4.5	23.8
2. INPUTS (including taxes)	11.6	6.3	13.1	2.8	37.7
Of which:					
1. Net purchases	11.9	3.7	16.1	-0.2	54.2
2. Other operating costs	10.8	11.2	10.0	10.6	9.1
S.1. GROSS VALUE ADDED AT FACTOR COST	<u>7.1</u>	<u>6.8</u>	<u>2.4</u>	<u>2.8</u>	<u>5.7</u>
3. Personnel costs	<u>4.0</u>	<u>5.3</u>	<u>1.9</u>	<u>2.0</u>	<u>5.2</u>
S.2. GROSS OPERATING RESULT	<u>11.0</u>	<u>8.5</u>	<u>2.9</u>	<u>3.5</u>	<u>6.2</u>
4. Financial revenue	11.0	9.5	26.1	26.5	14.8
5. Financial costs	-13.9	-8.7	-7.1	-11.6	17.0
6. Corporate income tax	23.0	29.8	21.3 (c)	13.6	17.1 (c)
S.3. FUNDS GENERATED FROM OPERATIONS	17.2	10.3	7.8	8.1	6.0
7. Depreciation and provisions (b)	25.0	18.7	6.1	9.9	-0.2
S.4. TOTAL NET RESULT (% of GVA at factor cost)	14.8	15.5	20.2	22.4	29.1
PROFITABILITY RATIOS					
R.1. Ordinary return on net assets (before taxes) (b)	7.6	8.3	8.7	8.5	8.3
R.2. Interest on borrowed funds/ interest-bearing borrowing	6.7	5.7	4.9	5.1	4.9
R.3. Ordinary return on equity (before taxes) (b)	8.1	9.6	10.5	10.1	9.9
R.4. Debt ratio	38.9	39.3	38.5	38.3	37.3
R.5. Financial leverage (before taxes) (R.1 - R.2) (b)	0.9	2.6	3.8	3.4	3.4

Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.

(b) Ratios calculated according to the new methodology, as explained in the Central Balance Sheet Office's annual monograph.

(c) Adjusted for one-off transactions.

CHART 1

Non-financial corporations reporting to the Central Balance Sheet Office (a)



Source: Banco de España.

(a) Information available to June 16th 2000 (CBA and CBQ).

(b) The 1995, 1996, 1997 and 1998 data are based on information from the corporations included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).

(c) Average of the four quarters of 1999 in relation to the same period in 1998.

(d) First quarter of 2000 on first quarter of 1999.

TABLE 2.a

Value added, employees, personnel costs and compensation per employee
Breakdown by size, ownership status and main activity of corporations
(Growth rates of the same corporations on the same period a year earlier)

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBT			CBA	CBT			CBA	CBT			CBA	CBT		
	1998	99 Q1-Q4 (a)	99 Q1	00 Q1	1998	99 Q1-Q4 (a)	99 Q1	00 Q1	1998	99 Q1-Q4 (a)	99 Q1	00 Q1	1998	99 Q1-Q4 (a)	99 Q1	00 Q1
Total	6.8	2.4	2.8	5.7	3.4	-0.2	-0.6	1.4	5.3	1.9	2.0	5.2	1.9	2.0	2.6	3.7
Total, except electricity sector	7.9	2.1	2.5	6.6	3.8	0.6	0.2	2.0	5.8	2.7	2.9	6.2	2.0	2.2	2.7	4.2
SIZE:																
Small	8.5	—	—	—	4.3	—	—	—	7.3	—	—	—	3.0	—	—	—
Medium	9.9	7.2	10.5	9.1	5.7	5.5	4.6	4.8	8.7	7.1	7.6	8.1	2.9	1.5	2.8	3.2
Large	6.3	2.1	2.3	5.5	2.9	-0.8	-1.2	1.0	4.8	1.4	1.5	4.9	1.8	2.2	2.7	3.8
STATUS:																
Public-sector	5.0	1.9	1.9	3.0	-1.4	0.9	1.4	-0.1	2.1	4.9	5.2	5.4	3.5	4.0	3.8	5.5
Private-sector	7.1	2.6	3.0	6.2	4.5	-0.6	-1.3	1.9	6.1	0.8	0.9	5.1	1.5	1.4	2.2	3.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	6.7	0.5	-2.2	18.8	2.3	-0.5	-0.2	-0.1	5.5	2.1	3.0	4.5	3.2	2.6	3.2	4.6
Production and distribution of electricity, gas and water	0.2	3.8	3.8	2.7	-5.8	-8.2	-8.9	-4.9	-1.7	-5.4	-5.2	-3.7	4.3	3.1	4.0	1.3
Distributive trade	13.9	6.9	9.9	4.9	8.2	6.4	5.0	7.2	9.5	7.6	9.3	9.3	1.3	1.1	4.1	2.0
Transport, storage and communications	5.6	0.3	2.2	-2.3	-0.4	-4.6	-4.8	-2.1	3.2	-0.2	-1.7	4.2	3.7	4.7	3.3	6.4

Source: Banco de España.

(a) All the data in these columns have been calculated as the arithmetic mean of the quarterly data.

TABLE 2.b

Employment and personnel costs
Detail according to changes in staff levels

	Total CBQ firms 2000 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	723	454	269
Personnel costs			
Initial situation 1999 Q1 (EUR millions)	4,059.3	1,968.2	2,091.1
Rate 00 Q1/99 Q1	5.2	12.7	-1.9
Average compensation			
Initial situation 1999 Q1 (EUR)	8,924.4	8,073.2	9,908.3
Rate 00 Q1/99 Q1	3.7	3.6	5.4
Number of employees			
Initial situation 1999 Q1 (thousands)	455	244	211
Rate 00 Q1/99 Q1	1.4	8.7	-7.0
Permanent			
Initial situation 1999 Q1 (thousands)	392	193	199
Rate 00 Q1/99 Q1	-0.2	5.9	-6.1
Non-permanent			
Initial situation 1999 Q1 (thousands)	63	51	12
Rate 00 Q1/99 Q1	11.4	19.3	-21.7

Source: Banco de España.

line with the pick-up seen in 1999 Q4. This increase, departing from the chain of reductions recorded since 1995, is mainly due to the growth of the cost of debt which has exceeded the lagged effect of the decline in interest rates, which remains negative. This significant resort to credit is not evident in the debt ratio (R.4). This ratio continued decreasing after the strong growth recorded in equity (self-financing and capital increases), which is in the denominator of this ratio. In any event, the overall indication is that the growth in financial costs will continue over the coming quarters, given the recent course of interest rates and the upward trend in the cost of debt, linked to the buoyancy in investment fostered by favourable business expectations.

The aforementioned positive performance of the gross operating result fed through, despite the increase in financial costs, to funds generated by corporations, which continued increasing in 2000 Q1, albeit at a more subdued rate of change than in the previous period. In turn, the total net result, which already stood at an exceptionally high level at end-1999, has benefited from the growth in funds generated and, dur-

TABLE 3

**Purchases and turnover of corporations reporting data on purchasing sources
and sales destinations
Structure**

	CBA	CBQ	
	1998	99 Q1 to Q4 (a)	00 Q1/99 Q1
Total corporations	6,806	854	723
Corporations reporting source/destination	6,806	802	689
	%	%	%
Net purchases	100.0	100.0	100.0
SOURCE OF PURCHASES:			
Spain	65.4	74.0	75.6
Total abroad	34.6	26.0	24.4
<i>EU countries</i>	24.2	16.9	13.7
<i>Third countries</i>	10.5	9.0	10.7
Net turnover	100.0	100.0	100.0
SALES DESTINATIONS:			
Spain	79.9	88.6	87.3
Total abroad	20.1	11.4	12.7
<i>EU countries</i>	15.0	7.5	7.6
<i>Third countries</i>	5.1	3.9	5.1

Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of corporations.

ing the same period, from the capital gains arising on the partial privatisation of a major state-owned enterprise. Thus, non-financial corporations have reached a new high of 29 % in net results as a proportion of GVA (even without the aforementioned capital gains, the level of results obtained will reach an historic high of 23 % of GVA). This accounts for the improvement in the ordinary return ratios both on net assets (R.1) and on equity (R.3). As these developments were accompanied by a reduction in the cost of debt (R.2), financial leverage (the difference between the ordinary return on assets and the cost of debt) was, during 2000 Q1, at the same level as at the end of 1999. Therefore, favourable expectations of growth, investment and employment were confirmed. Against this background, the key risk is that derived from price pressures, especially in the case of oil-derived products, which bears on firms' cost structures and, therefore, on their competitiveness.

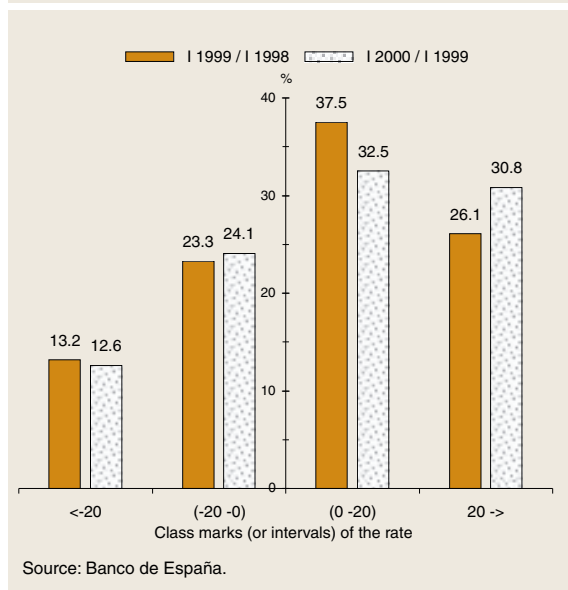
2. ACTIVITY

As mentioned in the introduction, the Central Balance Sheet Office Survey data show that 2000 Q1 was a period of across-the board growth in basically all sectors. GVA grew by 5.7 % in this quarter, compared with 2.8 % in the same period a year earlier (2) (see Table 1 and Chart 1). The generalisation of the increase in GVA to the different groups of corporations, both by size and nature (see Table 2.a), and especially to the aggregate made up by medium-size private corporations, confirms the extent of this phenomenon. Moreover, as can be seen in Chart 2, which shows the distribution of corporations according to the rate of change of GVA, without any account being taken of size,

(2) The strong growth in purchases and sales in 2000 Q1 is also a consequence of the unbundling (of production, transport, distribution and marketing activities) in the electric utilities. This does not directly affect the value added, but does bear on current flows, of production and inputs.

CHART 2

Distribution of corporations by rate of change in GVA at factor cost (99 Q1/98 Q1 and 00 Q1/99 Q1)



production is growing in the core corporations. Therefore, although the proportion of firms with increases in GVA remained stable in 2000 Q1 (activity grew in 63 % of corporations) with respect to the same period in 1999, this was accompanied by a significant shift towards the segment of corporations with GVA growth exceeding 20 %. In 2000 Q1, 30.8 % of reporting corporations were in this segment, while in the same period of 1999 the figure was 26.1 % of the sample total.

Sales abroad, especially in EU countries, and in the domestic market (see Table 3) evidence the effect of the increase in domestic and foreign demand on corporations during the first three months of 2000. While in 1999 growth in activity was due almost exclusively to the favourable performance of domestic demand, the wearing off of the effects of the international financial crisis, the stabilisation of foreign markets, the upturn in international economies and the downward trend of the euro have exerted a growing influence on the recovery in exports. Thus, manufacturing industry (more open to foreign markets) has shown higher increases in value added (18.8 %). However, there is a notable price effect incorporated into this aggregate due to the nominal rate of change of GVA of the oil-refining sector, which accounts for 30 % of growth in manufacturing firms in 2000 Q1. The oil-refining corporations, whose operating margin was drastically reduced (by half) in 1999, have managed to hold the margin steady in 2000 Q1 and to increase their GVA further to the rise in oil prices. At the same time, this price

effect explains the very high rates in production and inputs (24 % and 37 %, respectively) in the aggregate of corporations, as can be seen in Table 1. As the full effect has not been passed through to final consumers by the distributing firms, these have seen their GVA greatly reduced in Q1. And that also explains the apparent slowdown in the distributive trade sector as a whole. Chart 3 shows the difference in 2000 Q1 between the GVA of the two sectors (fuel refining and retailing) and the changes in the prices of inputs and outputs that account for these developments.

The performance of the distributive trade sector as a whole during 2000 Q1, in which activity – driven by the ongoing buoyancy of private consumption – continued growing for a further quarter, should be evaluated from this perspective. As discussed earlier, nominal activity grew at a more muted pace than the previous year, posting rates of change in GVA of 4.9 % in 2000 (as against 9.9 % in 1999 Q1). In turn, the electricity, gas and water production and distribution sector, favoured by the expansion in economic activity, also showed increases in GVA during 2000 Q1, albeit at a nominal rate of 2.7 %, which is lower than the rate of change for non-financial corporations. This increase was due, on one hand, to the strong growth in electricity demand (8.1 % according to sources in this sector), which did not feed through similarly to GVA, given the average reduction in rates (of about 1 %) agreed at the beginning of the year; and, on the other, to the adverse performance of corporations in the gas sector, affected by the rise in input prices, which have not fed through in full to the sale price. Finally, the transport and communication sector showed a nominal fall in GVA of -2.3 % during 2000 Q1. Heightening competition, with the entry of new market participants, is leading to price reductions accompanied, in some cases, by increases in the cost of promotion. As can be seen, in these instances the nominal growth of GVA does not reflect the expansion and buoyancy of the sector, especially in telecommunications.

3. EMPLOYMENT AND PERSONNEL COSTS

Personnel costs at the CBQ corporations grew by 5.2 % in 2000 Q1, against 2 % in the same period of 1999. This sharp increase is due to a higher level of job creation in the corporations included in the sample, and to by the increase in personnel costs per employee which, at 3.7 %, were significantly higher than in 1999 Q1 (2.6 %). Net job creation, which at 1.4 % marks a peak in the quarterly time series,

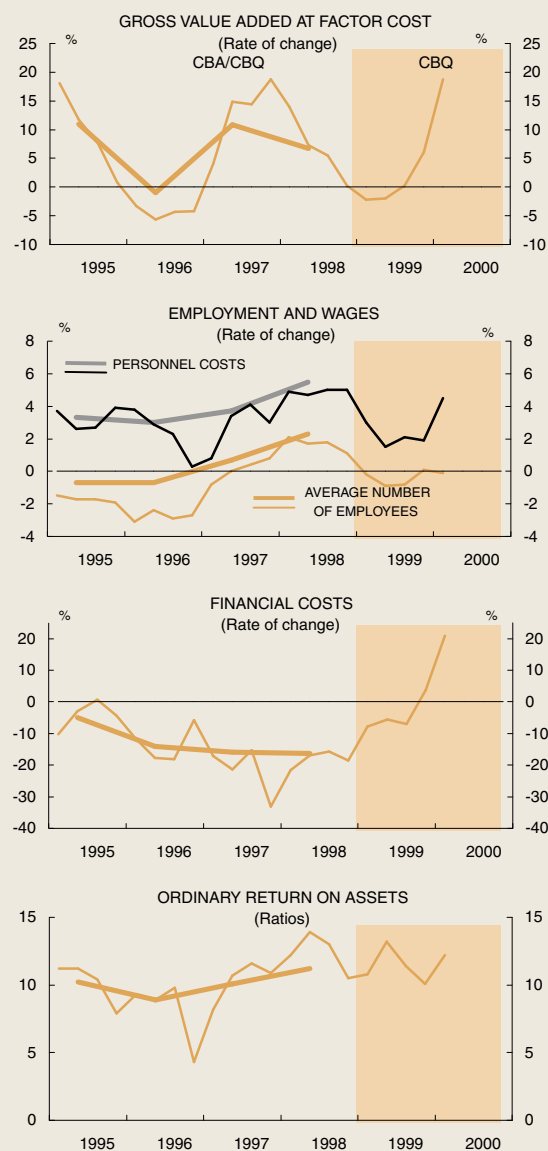
Analysis of the manufacturing sector

As is customary, the manufacturing sector, owing to its weight and representativeness in the CBQ sample, is analysed in somewhat greater detail. In 2000 Q1, activity in this sector increased strongly with a nominal rate of change of GVA of 18.8 % and increases in all the sub-sectors making up the aggregate. This significant rise is attributable to the strengthening of foreign demand, which corporations met by substantially increasing their exports, and also of domestic demand, where investment in capital goods remained vigorous and corporations producing this type of good recorded high rates of activity. Finally, a third major effect stems from developments in crude-oil prices and in the prices applied by oil-refining corporations.

The sharp rise in these prices throughout 1999 notably reduced the business margins of oil-refining corporations, which halved in value with respect to the beginning of the year. Only in the first three months of 2000 did further increases in world crude-oil prices not adversely affect these margins once more.

Maintaining operating margins in 2000, against a background of sharp rises in input prices, entailed a parallel increase in the nominal value added of these corporations, the effects of which were passed through to manufacturing industries (accounting thereby for one-third of the increase in their GVA). In any event, the recovery in activity, which, as mentioned above, affected all the manufacturing sub-sectors, has not to date translated so clearly into net job increases. During the three months under review, the percentage changes in employment were virtually nil and were affected by the restructuring under way in certain companies. However, the rate of change was slightly higher than in 1999 Q1 and in 1999 as a whole. Only in the electronics sub-sector is the number of staff increasing significantly. Over the coming quarters, the current expansion in productive activity should entail clear growth in employment. As for average compensation, the increase was 4.6 %, in line with the trends observed for the total sample. This figure is notably high with respect both to previous periods and to the rate of inflation. It would be desirable for this trend not to firm in the medium run, especially insofar as current inflationary pressures should be successfully vanquished. The overall course of employment and compensation per employee triggered a rise in personnel costs of 4.5 % in 2000 Q1. The lower growth rate exhibited by this variable with respect to productive activity led to a strong expansion of the operating surplus (gross operating results increased by 39 %) over this period. Moreover, the rise in financial costs is due to the use of fresh borrowing in view of the attractive commercial expansion and investment projects and of the affordable interest rates prevailing in the market. By contrast, trends in the cost of financing, which in 2000 Q1 stood at the same level as in previous periods (4.5 %), were not influential here. Despite the growth in financial costs, the sharp growth in gross operating results enabled corporations in this sector to increase their funds generated (by 41.5 %) and to obtain increasingly high ordinary returns on assets with respect to the corresponding period of 1999. The combination of these two effects (high returns and low financing costs) led, once more, to strongly positive leverage, indicating the sound health of the industrial sector for which, as for other areas of the Spanish economy, prospects are very favourable.

Performance of the manufacturing corporations reporting to the Central Balance Sheet Office (a)



		NUMBER OF CORPORATIONS			
CBA		3,258	3,225	3,346	2,787
CBQ		385	374	362	348
		371	364	349	336
		360	351	343	337
		408	398	391	383
		426	409	396	368
		343			
		% OF GDP OF NON-FINANCIAL CORPORATIONS SECTOR			
CBA		39.3	38.2	38.5	31.7
CBQ		25.0	25.2	25.3	25.4
		22.7	22.6	22.6	22.6
		25.0	25.6	25.6	22.9
		22.3	22.9	24.3	25.1
		22.0	21.0	23.5	24.3
		20.3	19.7	17.1	

— CBA data.
— CBQ data.

Source: Banco de España.

(a) Information available to June 15th 2000 (CBA and CBQ). The CBQ data are growth rates on the same quarter of the previous year.

TABLE 4

**Personnel costs, employees and average compensation
% of corporations in specific situations**

	CBA		CBQ			
	1997	1998	98 Q1 to Q4 (a)	99 Q1 to Q4 (a)	99 Q1	00 Q1
Number of corporations	8,046	6,806	833	854	912	723
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	24.0	21.1	27.8	30.2	28.2	22.4
Constant or rising	76.0	78.9	72.2	69.8	71.8	77.6
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	28.3	25.4	40.1	38.9	41.2	37.2
Constant or rising	71.7	74.6	59.9	61.1	58.8	62.8
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	44.0	40.3	43.0	48.7	46.0	41.8
Higher or same growth	56.0	59.7	57.0	51.3	54.0	58.2

Source: Banco de España.

(a) Arithmetic mean of the relevant quarters for each column.

(b) Twelve-month percentage change in the CPI.

is even more significant considering, first, the particular features of the sample (some of the larger corporations in the electricity and in the transport and communications sectors are still undergoing special restructuring operations), and further, the fact that jobs are being created, as a rule, in most corporations, as explained below. Table 2.a shows that, excluding the "Production and distribution of electricity, gas and water" sector (where the employment rate was -4.9 %), the employment figure for the rest of the sample would rise to 2 %. In manufacturing, staff figures practically levelled off during 2000 Q1 (changes in employment were virtually zero). Prospects for the coming quarters are also positive, given the strength of the recovery in the activity of these industries.

The upward revision of average compensation is explained by the inclusion in collective bargaining agreements of the impact of inflation increases. Only the "Distributive trade" and "Production and distribution of electricity, gas and water" sectors recorded slightly more moderate increases (2 % and 1.3 %, respectively), although the rise was merely an accounting phenomenon in the latter sector. In the "Distributive trade" sector, the lower compensation levels for new hires helped keep rates below average levels. As for the second sector, dismissal costs are fully provided for and payments against the related account are not shown under compensation in profit and loss

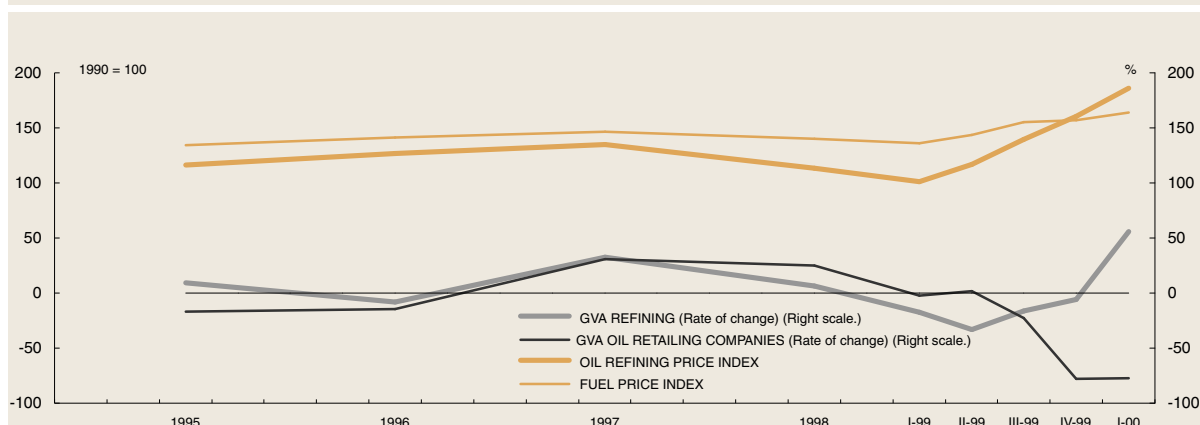
accounts (CBQ data do not include allocations of provisions for staff restructuring, which are included in the CBA data). In sum, in the "Distributive trade" sector, only compensation by employee grew at below-average levels.

The main conclusions drawn above are confirmed in Table 2.b, where the corporations are broken down into two clearly contrasting groups (those creating employment and those shedding staff). Corporations in the first group (454 firms, or 63 % of the sample) created permanent and non-permanent employment at a rate of 8.7 %; this trend was also consistent with an increase in average compensation of 3.6 %. At the same time, corporations included in the second group downsized their staff in 2000 Q1 by 7 % (with permanent jobs almost 6 % down, and non-permanent posts 21.7 % down), with an increase in compensation per employee of 5.4 %. However, the amount of dismissals shows that the associated costs (severance payments) were not fully reflected in the profit and loss account under "personnel costs", because provisioning was made in advance. Therefore, the above-mentioned rate (5.4 %) will rise for the group of corporations reducing employment when annual data become available in November 2001.

Finally, Table 4 shows that, despite the pick-up in prices over the past few months, almost 58 % of corporations saw their average com-

CHART 3

Developments in crude oil prices and their impact on added value



Sources: Banco de España and INE.

pensation rise at rates equal to or above the rate of inflation, four percentage points up on the related rate in 1999 Q1 (then, average compensation rose at above the rate of inflation prevailing in 54 % of corporations). Evidently, this divergent trend between wages and prices may ultimately affect the competitiveness of our companies and, in the long run, hamper the above-mentioned process of job creation.

4. RESULTS, MARGINS AND PROFITABILITY

As a result of productive activity accelerating in 2000 Q1 at a more buoyant pace than the increases in personnel costs, the gross operating result grew at a quicker rate than in the previous period. As can be seen in Tables 1 and 5, the gross operating result increased by 6.2 % in 2000 Q1, far above the rate of 3.5 % in the same quarter a year earlier, and of 2.9 % throughout 1999. Sector by sector, growth was notably strong in manufacturing industry (the gross operating result rose by 39 %, reflecting the significant momentum attained in all sub-sectors), confirming its recovery and making it the most dynamic sector in the economy. Box 1 analyses these developments in greater detail. The growth rate of the gross operating result in the distributive trade sector slowed substantially, running at practically zero, mainly due to the effect of the rise in oil prices (and, in parallel, in oil-refining) on the costs of fuel-retailing corporations. The operating margin of these corporations in 1999 Q4 and in 2000 Q1 declined to such a low level that it can hardly continue this path in the coming quarters. With regard to other sectors, electricity, gas and water production

and distribution showed lower growth than the previous year, standing at 4.4 % in 2000, in keeping with the aforementioned course of the GVA of these corporations. Finally, the GVA of transport and communications companies decreased, having been affected by heightened competition and the reduction in prices resulting from the ongoing opening up of this sector to the market.

As regards financial costs, a notable turnaround has occurred given that, for the first time since 1995, positive rates of change were posted. In order to analyse the reasons for this change it is necessary to know to what extent this increase is due to interest rate fluctuations and which portion is attributable to changes in debt levels. This information can be seen below:

	00 Q1/99 Q1
<i>Change in financial costs</i>	17.0 %
A. <i>Interest on borrowed funds (1+2)</i>	17.3 %
A.1 <i>Due to the cost (interest rate)</i>	-5.0 %
A.2 <i>Due to the amount of interest-bearing debt</i>	-22.3 %
B. <i>Commissions and cash discounts</i>	-0.3 %

This confirms that interest-rate cuts in the previous period continued to pass through to corporate costs, and that the latter have not yet been affected by recent interest-rate increases, which will gradually occur as previously agreed interest-bearing loans mature. At the same time, the increase in the level of debt is indicative of greater business buoyancy, as it is

TABLE 5

Gross operating result, funds generated, ordinary return on assets and leverage
Breakdown by size, ownership status and main activity of corporations
(Growth rates of the same corporations on the same period a year earlier)

	Gross operating result				Funds generated				Ordinary return on assets (R.1) (a)				Leverage (a)			
	CBA		CBT		CBA		CBT		CBA		CBT		CBA		CBT	
	1998	99 Q1-Q4 (b)	99 Q1	00 Q1	1998	99 Q1-Q4 (b)	99 Q1	00 Q1	1998	99 Q1-Q4 (b)	99 Q1	00 Q1	1998	99 Q1-Q4 (b)	99 Q1	00 Q1
Total	8.5	2.9	3.5	6.2	10.3	7.8	8.1	6.0	8.3	8.7	8.5	8.3	2.6	3.8	3.4	3.4
Total, except electricity sector	10.8	1.5	2.2	7.0	11.6	8.4	11.8	11.9	8.6	8.8	8.1	8.3	2.7	3.9	5.3	3.7
SIZE:																
Small	10.4	—	—	—	14.6	—	—	—	10.4	—	—	—	3.3	—	—	—
Medium	11.7	7.2	14.6	10.2	12.6	16.3	16.0	12.1	10.9	10.4	11.7	15.7	4.8	5.9	7.1	10.9
Large	8.1	2.7	3.0	5.9	9.9	7.5	7.8	5.6	8.0	8.6	8.3	8.0	2.4	3.7	3.2	3.1
STATUS:																
Public-sector	18.2	-3.5	-6.1	-5.8	10.0	9.8	-8.9	0.1	0.8	3.3	1.8	2.2	-4.7	-1.8	-3.6	-2.9
Private-sector	8.0	3.8	4.4	6.8	10.3	7.8	9.8	6.4	10.3	10.0	10.3	9.4	4.5	5.1	5.3	4.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	8.3	-1.0	-8.6	39.0	9.9	2.7	-5.0	41.5	11.2	11.4	10.8	12.2	5.4	6.6	6.1	7.7
Production and distribution of electricity, gas and water	0.8	6.8	6.4	4.4	5.3	7.6	0.0	-8.4	7.5	8.3	9.4	8.2	2.2	3.5	4.4	3.0
Distributive trade	20.4	6.8	10.6	0.4	19.2	10.6	11.4	7.1	11.7	11.1	13.1	10.8	6.2	6.3	7.7	6.4
Transport, storage and communications	7.8	0.6	5.2	-6.2	10.6	5.5	9.7	0.6	7.1	6.7	5.1	6.2	0.8	1.7	-0.4	1.5

Source: Banco de España.

(a) Ratios calculated according to the new methodology, as explained in the Central Balance Sheet Office's annual monograph.

(b) All the data in these columns have been calculated as the arithmetic mean of the quarterly data.

sought to take advantage of the improved market conditions for financing and the favourable relationship between the cost of borrowed funds and the return on productive assets in order to undertake new expansion projects. The resort to borrowed funds is thus spreading in the business sector. This greater resort to credit is not apparent in the debt ratio (which relates borrowed funds to total interest-bearing liabilities) as a result of equity (which is included in the denominator of the ratio) having substantially increased, both through self-financing and capital increases. The strength of the increase in financial costs means that funds generated have undergone a certain slowdown compared in relation to 1999 Q1. While in that quarter funds generated rose by 8.1 %, in 2000 Q1 they totalled 6 %. By sector of activity, there was no-

tably strong growth in this variable in manufacturing corporations (and in all their sub-sectors), where funds generated grew by 41.5 %, whereas in the sectors of electricity, gas and water production and distribution, and transport, storage and communications the related contribution was limited, or even negative (in the case of energy), in the period under review.

The foregoing has led to the attainment of exceptional results which, expressed as a percentage of GVA, exceeded the results in 1999 to stand at 29.1 % of GVA. This time series high remains high even when stripping out the effect of the partial privatisation of Iberia, which generated significant capital gains in the parent company in 2000 Q1. Precisely in order to avoid the bias introduced by such exceptional

TABLE 6

**Structure of reporting corporations' ordinary returns
on net assets and on equity**

	CBQ			
	Ordinary return on net assets (R.1)		Ordinary return on equity (R.3)	
	99 Q1	00 Q1	99 Q1	00 Q1
Total corporations	100.0	100.0	100.0	100.0
R 0 %	20.0	19.0	24.0	23.0
0 % < R 5 %	18.4	16.6	14.3	13.7
5 % < R 10 %	15.5	13.4	11.4	9.4
10 % < R 15 %	13.5	11.6	11.8	8.6
15 % < R	32.6	39.4	38.5	45.3
Number of corporations	912	723	912	723
MEMORANDUM ITEM:				
Average return	8.5	8.3	10.1	9.9

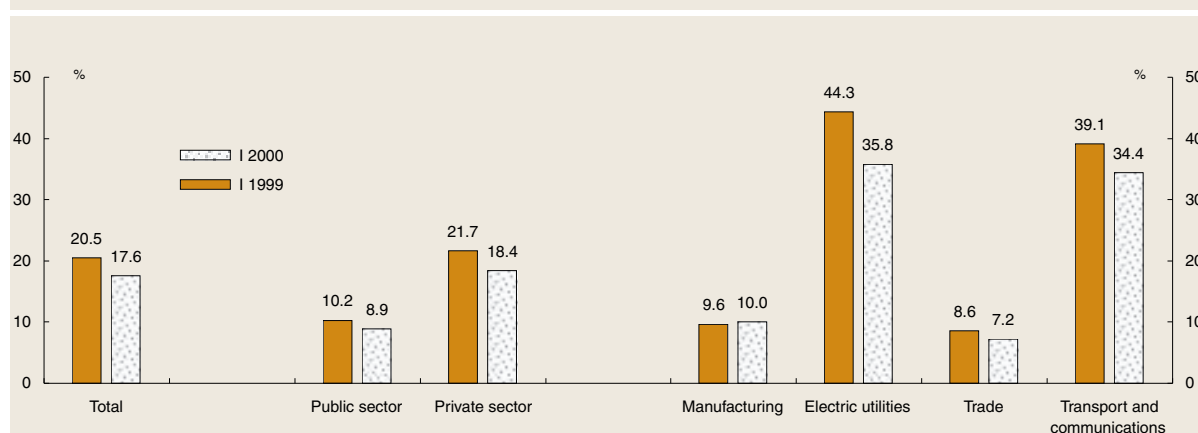
Source: Banco de España.

capital-gains-generating operations (in terms of both their amount and timing), the analysis of returns has been based, since 1999 Q3, on the study of typical or ordinary income in corporations as a ratio of the balance sheets proxying their current values. As a sign of the excellent situation of corporations, the ordinary return on assets (R.1) remained at a high level, similar to the previous year, both in the total of the sample (8.3 %) and in the manufacturing sector, where it reached 12 %, more than a percentage point up on the same quarter in 1999. By size, returns were substantially higher in medium-

size corporations (15.7 %, compared with 11.7 % in 1999 Q1). High returns, together with the fact financing costs held at low levels (in Q1 this ratio was 4.9 %), enabled the attainment, one more quarter, of markedly positive leverage, both for the total of corporations (3.4) and for all sectors reported. Only the transport and communications sector, which in a context of strong competition has seen its surplus dwindle, obtained a low -albeit positive- value in this ratio (in this sector leverage was 1.5 %). Finally, Table 6 allows the distribution of corporations to be analysed in terms of the return obtained, ir-

CHART 4

Business margins (a)



Source: Banco de España.

(a) Gross operating results/net turnover and other operating income.

respective of size and nature. The table shows not only the (admittedly slight) reduction in the proportion of corporations with negative returns but, especially, the shift towards the segment reflecting the number of corporations with higher returns. Therefore, whereas in 1999 Q1 the return on net assets of 32.6 % of corporations was above 15 %, in the same quarter of 2000 this percentage rose to 39.4 %, i.e. 7 percentage points more than the previous year. Regarding the ordinary return on equity, that obtained by shareholders, the percentage increased to 45 %, i.e. almost half of all corporations have an ordinary return on equity higher than 15 %. In short, corporations showed robust

and well-sustained growth in 2000 Q1 against a background of increases in domestic and foreign demand. The adverse effects that the pass-through of inflationary pressures may have on corporate costs and business competitiveness might jeopardise the expectations derived from the data available in the CBQ survey. Obviously, only by maintaining and improving competitiveness may Spanish corporations continue to move in the virtuous circle of activity, investment, generation of income and employment creation.

22.6.2000